



**Texas Hospital Association**  
**Response to House Appropriations Committee Subcommittee on Article II Request for**  
**Information - Interim Charge #3**

Sept. 30, 2020

*Interim Charge #3: Review the ability of hospital finance methods, including trauma funding, graduate medical education payments, and supplemental payment programs, to support all hospitals in Texas (including rural and children's hospitals), and the potential impact from state and federal budgetary changes.*

Throughout the COVID-19 pandemic, Texas hospitals have proudly served on the frontlines, protecting the health and safety of our communities. Like the state and other employers, Texas hospitals are facing significant financial challenges and are working to recover from unparalleled expenses and losses as a result of COVID-19. We understand that the state is facing significant budgetary challenges going into the 87<sup>th</sup> legislative session. We ask that you preserve hospitals' base Medicaid payment rates and the enhanced rates for trauma, rural and safety net hospitals as well as critical funding for supplemental payments and a robust health care workforce.

When the COVID-19 outbreak reached Texas, our facilities quickly adjusted their operations, including postponing non-essential surgeries and procedures and building out alternative care sites, to meet the state's growing need for care. The American Hospital Association estimates that from March through June 2020, hospitals and health systems across the country will have suffered more than \$200 billion in losses related to the pandemic. At a time when access to specialized, critical care is needed most, hospitals have been forced to furlough and lay off staff, including direct care providers.

Health Care Workforce Critical to Pandemic Response

In the early months of the pandemic, hospitals struggled to acquire enough ventilators, supplies and personal protective equipment. But the biggest challenge facing Texas hospitals as some ICUs began to surge with coronavirus patients was staff to care for them. Keeping hospitals and other medical facilities fully staffed with experienced nurses, technicians, and other essential personnel—and keeping them healthy enough to work through the ongoing crisis—has been a challenge. In addition to staffing provided by the state, students and trainees played an important role in helping hospitals meet the needs of their communities during the crisis. Hospitals across the state used the additional staff to surge in capacity and meet the enormous and sudden demand for hospital care, including accepting patient transfers from overwhelmed portions of Texas. The legislature should continue to prioritize the hospital workforce by maintaining investments in graduate medical education, nursing and other allied health care education and training programs. A strong health care system depends a ready workforce and



adequate training opportunities across the spectrum of health care providers. THA supports continued state funding for physician, nurse, behavioral health professional and allied health professional education and training.

#### Preserve Medicaid Hospital Rates and Add-Ons to Ensure Access to Care

The Medicaid program is critical to the stability of the health care safety net, on which millions of Texans rely. We are grateful that Medicaid and CHIP benefits and eligibility levels, public health services, behavioral health care and other services for vulnerable Texans are not subject to the agency cuts requested by state leadership and the subsequent legislative appropriations instructions. We ask that you continue to protect access to those services, including by protecting critical payments to the providers that deliver them. This includes hospitals' base rates in addition to existing investments in trauma, rural, and safety-net hospitals. THA supports continued funding of these critical payments to protect access to care and reduce the reliance on supplemental payments.

#### Supplemental Payment Programs Face Uncertain Future

Two-thirds of Texas hospitals' Medicaid payments are provided through supplemental payment programs outside of the base payments for providing care to Medicaid enrollees. Together, the Uncompensated Care and Delivery System Reform Incentive Payment programs under Texas' 1115 Waiver, the Disproportionate Share Hospital program and the Uniform Hospital Rate Increase Program total over \$10 billion in annual payments to hospitals for providing care to low-income and uninsured individuals. However, hospitals are facing unprecedented levels of uncertainty regarding the future of these programs and how they are financed.

The Medicaid DSH provides nearly \$1.9 billion to approximately 185 Texas hospitals to offset some of the costs hospitals incur for providing health care to low-income and uninsured Texans. The Affordable Care Act scheduled reductions to these hospital payments in anticipation of a reduction in the number of residents without health insurance and the amount of UC hospitals provide. Texas, however, has seen the number of uninsured residents increase, becoming the state with the largest number of residents without health insurance. This makes the DSH program crucial to Texas hospitals. These scheduled Medicaid DSH cuts so far have been successfully delayed, but, absent Congressional action, will take effect Dec. 1. The impact to Texas hospitals of these scheduled cuts is estimated to be \$440 million in fiscal year 2021 and \$880 million in subsequent years through FY 2025.

Since 2012, Texas' 1115 Medicaid Transformation Waiver has provided Texas hospitals and other health care providers with vital funding to transform the delivery system and to offset the costs of providing care to the uninsured. While it never intended to be permanent, DSRIP nonetheless has been a vital part of the hospital safety net, providing primary, school-based,

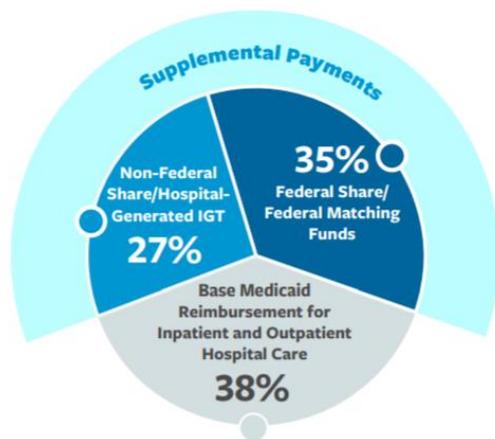


behavioral health and other health care services to Texans who otherwise would not have received it. Funding for DSRIP projects has begun phasing out, dropping from \$3.1 billion a year to \$0 by 2022. THA has joined other hospital and health care provider groups to request that HHSC ask CMS to extend the DSRIP program for at least one more year. With the ongoing COVID-19 pandemic, now is not the time to require the development of new programs nor the loss of essential DSRIP funding. With the current waiver set to expire Sept. 30, 2022, state leaders and providers will need to determine the best path forward to ensure sustainability of our health care safety net.

In addition to pending DSH cuts and the expiration of the 1115 waiver, HHSC has launched a workgroup to make significant changes to UHRIP. Since its inception and subsequent statewide implementation, UHRIP has been an important tool in ensuring access to care and improving stability for Texas' safety-net hospitals. THA appreciates HHSC's interest in improving the program and the collaborative approach the agency is taking with this effort. However, the UHRIP redesign adds another element of uncertainty in terms of availability of funding going forward.

As with all Medicaid payments, a state contribution is required to draw down federal dollars for these supplemental payment programs. Texas hospitals themselves provide that state contribution through various financing mechanisms.

### **Texas Hospitals' Estimated Medicaid Reimbursement and Supplemental Payments (\$13.862 Billion All Funds, FY 2016)**



In November 2019, the Centers for Medicare & Medicaid Services proposed the Medicaid Fiscal Accountability Rule, which could severely limit the state's ability to leverage these financing mechanisms to draw down federal Medicaid funding. Although the Centers for Medicare & Medicaid Services removed MFAR from its regulatory agenda, the rule itself has not been withdrawn. Texas hospitals remain concerned that it could reemerge.



### Graduate Medical Education

Texas Medicaid provides supplemental payments to support hospitals that operate approved medical residency training programs, recognizing the cost of providing these integral programs. THA supports HHSC renewing the effort to include private teaching hospitals in these payments. Texas has a well-known physician shortage, which is compounded in rural areas. Access to residency programs is a fundamental tool necessary to encourage physicians to live and work in the State of Texas.

### Texas Needs Plan to Increase Coverage

Leading the nation in the number of uninsured residents, Texas remains one of 13 states choosing not to increase access to coverage under the Affordable Care Act. Even before COVID-19, Texas had both the largest uninsured population (5 million) and the highest uninsured rate (18 percent). COVID-19-related job-losses have pushed Texas' unemployment rate to 12.8 percent, the worst on record and up from 3.5 percent in January and February. For many Texans, losing a job or having hours cut also means losing job-based health insurance. Before COVID-19, 13 million Texans had job-based health insurance. As job losses mount, so will the number of uninsured Texans.

Two recent reports — one from the Kaiser Family Foundation and another from the Urban Institute — have started to shed light on the scope of health insurance losses in Texas:

- 1.6 million Texans have already lost job-based health insurance because of a job loss in the family between March 1 and May 2 (KFF).
- The Urban Institute projects that if Texas hits a 20 percent unemployment rate, 2.3 million Texans will lose job-based insurance. At 25 percent unemployment, 3 million will lose job-based insurance.

Regardless of the future of the 1115 waiver, Texas needs a comprehensive plan to increase health care coverage to Texans.

### Increases Needed for Inpatient and Community Behavioral Health Services

While the Legislature has made significant investments in modernizing the state hospital system and increasing capacity at state hospitals, additional funding is needed to support the full continuum of care for individuals with behavioral health needs. Specifically, THA asks the Legislature to increase rates for contracted community beds and inpatient community hospitalizations in order to preserve hospitals' ability to continue operating and providing mental health services throughout the state. THA supports increased state funding to ensure timely and appropriate access to inpatient and outpatient, community-based services and supports for Texans with a behavioral health diagnosis.



Additionally, THA strongly supports efforts by the state to use 1115 waiver authority for federal Medicaid funds to cover services for eligible individuals ages 21-64, who are patients in an Institution for Mental Disease (IMD). Currently, Federal Medicaid prohibits services for these individuals, if they are patients in an IMD, leading to uncompensated care costs for hospitals. To offset those costs, the Federal Government has recently authorized use of section 1115 demonstration authority for federal Medicaid funds to cover patients in this age range in an IMD. Under the requirements of the demonstration, the state would need to improve community-based mental health services and ensure quality of care in IMDs, all of which lead to a better continuum of care for Texans.

### Support Texas Hospitals to Provide Stability and Access to Care for Vulnerable Texans

As employers and businesses, we understand the economic challenge the pandemic presents for both the state as a whole and the Medicaid program in particular. However, we are hopeful that, in these critical times, you will prioritize Texans' access to needed care and payments to support hospitals' economic stabilization and recovery.

The strength of our hospitals is fundamental to combatting COVID-19 and supporting the state's economic revival. We look forward to continuing to work with you to achieve that strength.

John Hawkins  
Texas Hospital Association  
1108 Lavaca St., Ste. 700  
Austin, TX 78701  
512-465-1000